

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name LAPEER DISTRICT LIBRARY	County LAPEER
Audit Date 12/31/05	Opinion Date 03/30/06	Date Accountant Report Submitted to State: 06/22/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) STEWART, BEAUVAIS & WHIPPLE PC			
Street Address 1979 HOLLAND AVENUE	City PORT HURON	State MI	ZIP 48060
Accountant Signature <i>Stewart, Beauvais & Whipple</i>		Date 06/22/06	

LAPEER DISTRICT LIBRARY

**ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
DECEMBER 31, 2005**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



LAPEER DISTRICT LIBRARY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lapeer District Library

We have audited the accompanying financial statements of the governmental activities of the Lapeer District Library as of and for the year ended December 31, 2005 as listed in the Table of Contents. These financial statements are the responsibility of the Lapeer District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Lapeer District Library as of December 31, 2005, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 30, 2006, on our consideration of the Lapeer District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

March 30, 2006

LAPEER DISTRICT LIBRARY

Management's Discussion and Analysis

As management of the Lapeer District Library, we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the year ended December 31, 2005.

USING THIS ANNUAL REPORT:

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include government-wide financial statements reported on the accrual basis, fund financial statements reported on the modified accrual basis, and notes to the financial statements.

CONDENSED FINANCIAL INFORMATION:

The following table below shows key financial information in a condensed format for the years ended December 31, 2005 and 2004:

STATEMENT OF NET ASSETS

	<u>2005</u>	<u>2004</u>
Assets		
Current Assets	\$ 2,193,027	\$ 2,096,297
Capital Assets, net of depreciation	<u>589,977</u>	<u>618,646</u>
Total Assets	<u>\$ 2,783,004</u>	<u>\$ 2,714,943</u>
Liabilities		
Current Liabilities	\$ 1,647,868	\$ 1,632,423
Non-Current Liabilities	<u>49,540</u>	<u>49,717</u>
Total Liabilities	<u>1,697,408</u>	<u>1,682,140</u>
Net Assets		
Invested in Capital Assets – Net of Related Debt	589,977	618,646
Restricted	51,235	38,654
Unrestricted	<u>444,384</u>	<u>375,503</u>
Total Net Assets	<u>1,085,596</u>	<u>1,032,803</u>
Total Liabilities and Net Assets	<u>\$ 2,783,004</u>	<u>\$ 2,714,943</u>

STATEMENT OF ACTIVITIES

Revenue		
Property Taxes	\$ 1,501,674	\$ 1,434,834
Other	<u>505,099</u>	<u>412,901</u>
Total Revenue	<u>2,006,773</u>	<u>1,847,735</u>
Total Expenses	<u>1,953,980</u>	<u>1,920,223</u>
Changes in Net Assets	<u>\$ 52,793</u>	<u>\$ (72,488)</u>

THE LIBRARY AS A WHOLE:

- The Library is reporting financial statements this year that meet the requirements of GASB 34.
- The Library's primary source of revenue is from property taxes. For 2005, total tax collections were \$1,501,674. This represents approximately 75% of total revenue.
- Personnel costs represent the largest overall expense of the Library. For 2005, this expense was \$1,308,304, representing 57% of the Library's total expenses.
- Library services of \$345,914 are the second largest overall expenditure of the Library, representing 17 percent of the Library's total expenses.

FINANCIAL HIGHLIGHTS:

- The assets of the Library exceeded its liabilities at the close of the most recent fiscal year by \$1,085,596 (net assets). Of this amount, \$444,384 (unrestricted net assets) may be used to meet the Library's ongoing obligations.
- The Library's total net assets increased by \$52,793 during the year. This is due to slightly increased revenues in 2005, combined with changes in personnel.
- At the end of 2005, unreserved fund balance for the general fund was \$362,258, or 18.8% of total governmental fund expenditures.

BUDGET & ACTUAL REVENUES & EXPENDITURES:

	Original and Final <u>Budget</u>	<u>Actual</u>	Variance <u>Actual and Final</u>
Revenues	\$ 1,928,791	\$ 2,006,773	4.04 %
Expenditures	<u>1,976,988</u>	<u>1,925,488</u>	2.61
Total	<u>\$(48,197)</u>	<u>\$ 81,285</u>	

There were no budget amendments that affected the total revenues or expenditures.

REVENUES

- Penal fines in Lapeer County exceeded estimates, as we budgeted for \$275,000 and realized \$326,559 collected.

EXPENDITURES

- Even with the hiring of a new director and a 1.4662% raise in salaries, personnel expenditures (salaries and benefits) were less than anticipated due to the retirement of two full time employees and part time staff being hired.
- Books and related library materials (library services) were reduced by the unavailability of ordered items, as well as the significant reduction in the use of the US Postal Service to move materials between library facilities.

CAPITAL ASSETS AND DEBT ADMINISTRATION:

As a result of GASB 34 implementation, the library adopted a capitalization policy of \$1000 and an estimated useful life in excess of two years.

The library continued to add new literary materials at all branches, including books, DVDs, audio books, bringing the capital assets value to \$589,977.

The Library's Otter Lake branch was assessed a sewer fee of \$10,475, as the community is converting from septic systems to a village-wide sewer system. The library board chose to pay the assessment annually in July, which will total \$11,548 in interest over ten years.

In accordance with the Library's personnel policy, individual employees have vested rights upon termination of employment to receive payment for unused vacation. As of December 31, 2005, the vested benefits amounted to \$39,327.

MILLAGE RATES:

In August 1996, the voters in Lapeer County approved a millage of .9 mills. Due to the Headlee Rollback, the Library levied .8272 mills in 2005. This millage expires on December 31, 2006.

CONTACTING THE DISTRICT LIBRARY'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens and taxpayers with a general overview of the Library's finances. If you have questions about this report or need additional information, contact the Library Director at Lapeer District Library, 201 Village West Drive S., Lapeer, MI 48446.

BASIC FINANCIAL STATEMENTS

LAPEER DISTRICT LIBRARY

BALANCE SHEET/STATEMENT OF NET ASSETS DECEMBER 31, 2005

	Governmental Fund	Adjustments Note 2	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 459,234	\$ -	\$ 459,234
Endowments with community foundation	85,139	-	85,139
Accounts receivable	7,525		7,525
Taxes receivable	1,571,613	-	1,571,613
Due from other governmental units	22,989	-	22,989
Prepaid items	46,527	-	46,527
Capital Assets, net of depreciation			
Assets not being depreciated	-	17,000	17,000
Assets being depreciated	-	572,977	572,977
	<u>\$ 2,193,027</u>	<u>589,977</u>	<u>2,783,004</u>
LIABILITIES			
Accounts Payable	\$ 35,602	-	35,602
Accrued payroll and related liabilities	40,653	-	40,653
Deferred revenue	1,571,613	-	1,571,613
Noncurrent liabilities			
Due within one year	-	39,589	39,589
Due in more than one year	-	9,951	9,951
	<u>1,647,868</u>	<u>49,540</u>	<u>1,697,408</u>
FUND BALANCE			
Reserved			
Community foundation	85,139	(85,139)	-
Prepaid items	46,527	(46,527)	-
External restrictions	51,235	(51,235)	-
Unreserved			
Undesignated	<u>362,258</u>	<u>(362,258)</u>	<u>-</u>
	<u>545,159</u>	<u>(545,159)</u>	<u>-</u>
	<u>\$ 2,193,027</u>		
NET ASSETS			
Invested in capital assets		589,977	589,977
Restricted		51,235	51,235
Unrestricted		<u>444,384</u>	<u>444,384</u>
		<u>\$ 1,085,596</u>	<u>\$ 1,085,596</u>

See Notes to
Financial Statements

LAPEER DISTRICT LIBRARY

STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

	Governmental Fund	Adjustments Note 2	Statement of Activities
Revenues:			
Property taxes - operating	\$ 1,501,674	\$ -	\$ 1,501,674
Reed gates grant	24,623	-	24,623
MMLC grants	9,935	-	9,935
State aid - books	54,246	-	54,246
Penal fines	326,559	-	326,559
Fines and fees	2,907	-	2,907
Donations	24,809	-	24,809
Library services	10,364	-	10,364
Interest earned	19,730	-	19,730
Investment earnings - endowment	5,446	-	5,446
Transfer in from County	16,721	-	16,721
Miscellaneous	9,759	-	9,759
	<u>2,006,773</u>	<u>-</u>	<u>2,006,773</u>
Expenditures/Expenses:			
Personnel	1,318,694	(10,390)	1,308,304
Library services	475,474	(129,560)	345,914
Facilities and equipment	104,614	8,614	113,228
Other expenditures	26,706	-	26,706
Depreciation	-	159,828	159,828
	<u>1,925,488</u>	<u>28,492</u>	<u>1,953,980</u>
 Excess of revenues over expenditures/expenses	 81,285	 (28,492)	 52,793
 Fund Balance/Net Assets at January 1, 2005	 <u>463,874</u>	 <u>568,929</u>	 <u>1,032,803</u>
 Fund Balance/Net Assets at December 31, 2005	 <u><u>\$ 545,159</u></u>	 <u><u>\$ 540,437</u></u>	 <u><u>\$ 1,085,596</u></u>

See Notes to
Financial Statements

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by the Lapeer District Library (the "Library") conform in all material respects to U.S. generally accepted accounting principles as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Library's financial statements.

A. Reporting Entity –

The Library is governed by an eight member Board of Trustees. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Accordingly, there are no component units to be included in the Library's financial report.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statements (i.e. the Statement of Net Assets and Statement of Activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Net Assets or Equity –

Cash and Cash Equivalents – The Library's cash and cash equivalents are cash on hand, demand deposits and certificates of deposits with original maturities of three months or less from the date of acquisition.

Receivables – All receivables are shown net of allowances for uncollectible amounts.

Prepaid Items – Certain payments to vendors reflect cost applicable to future fiscal years and are recorded as prepaid expenditures.

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Capital Assets – Are reported in the government-wide statements. Capital assets are defined by the Library as assets with an initial individual cost of \$1,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

Building	50
Equipment and vehicles	5
Library books, periodicals and videos	3

Accrued Vacation and Sick Pay – In accordance with the Lapeer District Library personnel policy, individual employees have vested rights upon termination of employment to receive payment for unused vacation. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

Deferred Revenues – In both the government-wide statements and in the fund (modified accrual) financial statements revenues received or recorded before it is earned is recorded as a deferred revenue.

Fund Equity – The fund (modified accrual) statements report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

Estimates – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

- A. Explanation of differences between the fund (modified accrual) balance sheet and the government-wide statement of net assets (Page 2).

Fund Balance	\$ 545,159
Capital assets used in the modified accrued activities which are not financial resources and therefore are not reported in the fund statements	

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont'd):

Add – capital assets	3,475,560
Deduct – accumulated depreciation	(2,885,583)
Long-term accrued vacation and sick time that are not due in the current period, therefore, not reported in the fund (modified accrual) activities	(39,327)
Long-term special assessment debt not due in the current period, therefore, not reported in the fund (modified accrual) activities	(10,213)
Net Assets	<u>\$ 1,085,596</u>

- B.** Explanation of differences between the fund (modified accrual) statement of revenues, expenditures and changes in fund balance and the government-wide statement of net activities (Page 3).

Net changes in fund balance – modified accrual	81,285
The fund (modified accrual) statements report capital outlay as expenditures; however, in the Statement of Net Assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses	
Add – capital outlay	131,159
Deduct – depreciation	(159,828)
Accrued vacation and sick time expenses reported in the fund (modified accrual) statement because they reported when paid, not when earned	10,390
Special assessment expense not reported in the fund (modified accrual) statement because it will not be paid with current financial resources	(10,213)
Change in Net Assets	<u>\$ 52,793</u>

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

The Library's budget is prepared on the accrual basis of accounting and approved by the Board prior to the start of the year. After the budget is adopted, all amendments must be approved by the Library Board.

The Library's approved budget was adopted at the account level and control was exercised at that level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act and the level requiring amendment approval by the District Library Board.

Expenditures at this legally adopted level in excess of the amount budgeted are a violation of the Budgeting Act. Expenditures in excess of the amount appropriated are as follows:

<u>Activity/Amount</u>	<u>Total Appropriation</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
Personnel -			
Salaries and wages	\$ 929,971	\$ 940,647	\$ 10,676
Library Services -			
Contracted Services	131,287	159,714	28,427
Facilities and Equipment -			
Maintenance - building and grounds	4,900	6,751	1,851
Maintenance - vehicles and equipment	1,200	1,926	726
Supplies - building and grounds	4,605	5,405	800
Utilities	33,769	34,826	1,057

NOTE 4 – DEPOSITS AND INVESTMENTS:

The Library investment policy allows the Library to invest in investment instruments that are legal under Public Act 40 of the Michigan Compiled Laws.

Custodial Credit Risk – is the risk that in the event of a bank failure, the Library's deposits may not be returned. The Library's investment policy does not address credit risk.

Interest Rate Risk – is the risk that the market value of securities of the Library's portfolio will fall due to changes in the market interest rates. The Library's investment policy does not address interest rate risk.

Credit Risk – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State laws limit the types of investment and "grades" of investments that the Library can purchase. The Library's investment policy does not further limit these types.

Concentration of Credit Risk – is the risk of loss attributed to the magnitude of the Library's investment in a single issuer. The only restriction is that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

NOTE 4 – DEPOSITS AND INVESTMENTS – (cont'd):

Deposits -

The Library's investment policy and Act 217 PA 1982, as amended, authorize the Library to deposit in certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

Custodial Credit Risk - Deposits –

The deposits bank balance at December 31, 2005, is \$77,881, which is covered by FDIC insurance.

Investments –

Act 20 PA 1994, as amended, authorizes the Library to invest its surplus funds in bonds, securities and other direct obligations of the United States or an agency or instrumentality of the United States; in commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase; in the United States government or federal agency obligations repurchase agreements; in bankers acceptances of United States banks; in obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; in obligations described in subdivision (a) through (f), as named above if purchased through an interlocal agreement under the Urban Cooperation Act of 1967 PA 7, MCL 124.501 to 124.512; in Investment pools organized under the Surplus Funds Investment Act, 1982 PA 367, 129.111 to 129.118; in mutual funds registered under the Investment Company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

Credit Risk - Investments –

The Library at December 31, 2005 held \$384,054 in financial institution pooled funds that are not evidenced by securities that exist in physical or book entry form. The financial institution pooled funds have been reported in the financial statements as cash equivalents because they have the general characteristic of demand deposit accounts in that the Library may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The financial institution pooled funds are reported at cost, which approximates fair value. The investment trust fund received a rating of AAA by Standard & Poor's and a rating of Aaa by Moody's as of December 31, 2005.

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

NOTE 4 – DEPOSITS AND INVESTMENTS – (cont'd):

The following is a summary of the financial statement presentation of deposits and investments at December 31, 2005:

Cash and Cash Equivalent -	
Petty Cash and Cash on Hand	\$ 496
Deposits with financial institutions	74,684
Investments -	
Investment Trust Funds	<u>384,054</u>
Total Deposits and Investments	<u>\$ 459,234</u>

NOTE 5 – ENDOWMENTS WITH COMMUNITY FOUNDATION:

The Library has two separate endowment funds that are administered by the Community Foundation of Greater Flint. One endowment fund was established for the benefit of the District Library and the other for the benefit of the Marguerite de Angeli Branch. Both endowment funds had original contributions from the District Library with additional contributions from individuals. Both Endowment funds are subject to variance power of the Foundation, which charges an administrative fee and operates under a spending policy agreed to by the Library.

The contributions to the endowment funds by the Library are considered funds of the Library and recorded on its balance sheet. The contributions to the Endowment Funds from individuals are a component fund of the Foundation.

The following are the balances at December 31, 2005:

	Library Gifts	Designated Gifts
District Library	\$ 65,951	\$ 1,602
Marguerite de Angeli Branch	<u>19,188</u>	<u>8,275</u>
	<u>\$ 85,139</u>	<u>\$ 9,877</u>

NOTE 6 – PROPERTY TAXES AND TAXES RECEIVABLE:

The Lapeer District Library's border's encompass all of the municipalities of the City of Lapeer and townships of Arcadia, Burlington, Burnside, Deerfield, Elba, Goodland, Hadley, Lapeer, Marathon, Mayfield, Metamora, Oregon and Rich. Properties in each government unit are levied each December 1, on the taxable valuation of property located in the Township as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and becomes delinquent after February 14.

Although the County's 2005 ad valorem tax is levied and collectible on December 1, it is the Library's policy to recognize in governmental fund types revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of Library operations. The property taxes levied at December 1, are accrued as current taxes receivable with the appropriated deferral and are budgeted as revenue in the subsequent year. Taxes receivable at December 31, 2005 is \$1,587,091.

Assessed values are established annually by the County and are equalized by the State at an estimated percentage of the current market value. A taxable value is established on which taxes are calculated. Real and personal property in the City and Township's for the 2005 and 2004 levies have a taxable value of \$1,937,603,467 and \$1,823,551,255, respectively. The millage rate was .8191 and .8272, respectively.

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

NOTE 7 – CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Adjusted Jan. 1, 2005 Balance	Additions	Deletions	Dec. 31, 2005 Balance
Capital assets not being depreciated –				
Land	\$ 17,000	\$ -	\$ -	\$ 17,000
Capital assets being depreciated –				
Buildings and building improvements	383,700	1,861	-	385,561
Land improvements	21,255	-	-	21,255
Equipment	262,458	-	-	262,458
Vehicles	17,486	-	-	17,486
Books, periodicals and videos	<u>2,749,100</u>	<u>129,298</u>	<u>106,598</u>	<u>2,771,800</u>
	<u>3,433,999</u>	<u>131,159</u>	<u>106,598</u>	<u>3,458,560</u>
Less accumulated depreciation for –				
Buildings and building improvements	119,320	7,143	-	126,463
Land improvements	21,255	-	-	21,255
Equipment	167,503	31,117	-	198,620
Vehicles	8,743	3,497	-	12,240
Books, periodicals and videos	<u>2,515,532</u>	<u>118,071</u>	<u>106,598</u>	<u>2,527,005</u>
	<u>2,832,353</u>	<u>159,828</u>	<u>106,598</u>	<u>2,885,583</u>
Net capital assets being depreciated	<u>601,646</u>	<u>(28,669)</u>	<u>-</u>	<u>572,977</u>
Total capital assets net of depreciated	<u>\$ 618,646</u>	<u>\$(28,669)</u>	<u>\$ -</u>	<u>\$ 589,977</u>

NOTE 8 – LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Library for the year ended December 31, 2005:

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Special assessment debt	\$ -	\$ 10,475	\$ 262	\$ 10,213	\$ 262
Accrued vacation	<u>49,717</u>	<u>62,200</u>	<u>72,590</u>	<u>39,327</u>	<u>39,327</u>
	<u>\$ 49,717</u>	<u>\$ 72,675</u>	<u>\$ 72,852</u>	<u>\$ 49,540</u>	<u>\$ 39,589</u>

In accordance with the Library's personnel policy, individual employees have vested rights upon termination of employment to receive payment for unused vacation. As of December 31, 2005, the vested benefits amounted to \$39,327.

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

NOTE 8 – LONG-TERM LIABILITIES – (cont'd):

During 2005, the Library received notification of a special assessment district established for sewer improvements in the Village of Otter Lake. The assessment requires 40 annual payments at 5.5% beginning July 1, 2005. The Library's Otter Lake branch has been assessed a total amount due of \$10,475. The remaining balance as of December 31, 2005 is \$10,213.

Annual requirements to pay principal and interest on the special assessment are as follows:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
2006	5.5 %	\$ 262	\$ 562	\$ 824
2007	5.5	262	547	809
2008	5.5	262	533	795
2009	5.5	262	518	780
2010	5.5	262	504	766
2011-2044	5.5	<u>8,903</u>	<u>8,570</u>	<u>17,473</u>
		<u>\$ 10,213</u>	<u>\$ 11,234</u>	<u>\$ 21,447</u>

NOTE 9 – OPERATING LEASES:

The Library leases certain equipment under non-cancelable operating leases expiring in various years. Future minimum lease payments under the non-cancelable operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Copiers</u>	<u>Fax Machine</u>	<u>Total</u>
2006	\$ 3,278	\$ 258	\$ 3,536
2007	1,584	-	1,584
2008	<u>264</u>	<u>-</u>	<u>264</u>
	<u>\$ 5,126</u>	<u>\$ 258</u>	<u>\$ 5,384</u>

NOTE 10 – EMPLOYEE PENSION PLAN:

Plan Description -

The Lapeer District Library participates in the Michigan Municipal Employees Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

NOTE 10 – EMPLOYEE PENSION PLAN – (cont'd):

Funding Policy -

The Library is required to contribute at an actuarially determined rate. The computed employer contribution rate for 2005 was 13.97%. The contribution requirements of plan members and the Library are established and may be amended by the Library Board, depending on the MERS contribution program adopted by the Library.

Annual Pension Costs -

For the year ended December 31, 2005 the Library's annual pension cost of \$121,479 for MERS was equal to the Library's required and actual contributions. The required contribution was determined as part of the December 31, 2003 initial actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 4.5% plus a percentage, depending on age, attributable to seniority/merit, (d) the assumption that withdrawal rules will decrease with the increase in the years of service, and (3) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years.

Year Ending December 31,	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2003	\$ 117,847	100 %	-
2004	124,614	100	-
2005	121,479	100	-

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
2002	\$ -	\$ 2,417,978	\$ 2,417,978	0 %	\$ 783,423	309 %
2003	1,281,061	2,110,507	829,446	61	771,422	108
2004	1,823,390	2,655,184	831,794	68	821,326	101

NOTE 11 – RISK MANAGEMENT:

The Library is a voluntary member of the Michigan Municipal Risk Management Authority established pursuant to PA 35 of 1951 of the State of Michigan which authorize local units of government to exercise jointly any power, privilege or authority which each might exercise separately. The Authority administers a risk management fund providing the Library with loss protection for liability, vehicle physical damage, and property and crime coverage.

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

NOTE 11 – RISK MANAGEMENT – (cont'd):

The Library is responsible to pay all costs, including damages, indemnification, and allocated loss adjustment expense for each occurrence that is within the Member's Self Insurance Retention. The Library's Self Insurance Retention and deductible are as follows:

<u>Coverage</u>	<u>Deductible</u>	<u>Self Insured</u>
Liability	None	State Pool Member
Vehicle physical damage	250/Vehicle	State Pool Member
Property and crime	250/Occurrence	State Pool Member

The Library has limits to coverage on an occurrence basis and must be paid first from the Library's Self Insured Retention. The most the MMRMA will pay is its Self Insured Retention obligation.

The Library continues to carry commercial insurance for employee health and accident insurance and workers compensation insurance.

REQUIRED SUPPLEMENTARY INFORMATION

LAPEER DISTRICT LIBRARY

STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2005

	Original Budget	Final Budget	General Operations	Actual External Restrictions
Revenues:				
Property taxes - operating	\$ 1,525,154	\$ 1,525,154	\$ 1,501,674	\$ -
Reed gates grant	-	-	-	24,623
MMLC grants	30,262	30,262	9,935	-
State aid - books	54,340	54,340	54,246	-
Penal fines	275,000	275,000	326,559	-
Fines and fees	3,000	3,000	2,907	-
Donations	19,050	19,050	108	24,701
Library services	11,000	11,000	10,364	-
Interest earned	5,600	5,600	19,730	-
Investment earnings - endowment	-	-	5,446	-
Transfer in from County	-	-	16,721	-
Miscellaneous	5,385	5,385	9,759	-
	<u>1,928,791</u>	<u>1,928,791</u>	<u>1,957,449</u>	<u>49,324</u>
Expenditures:				
Personnel:				
Salaries and wages	929,971	929,971	940,647	-
Fringe benefits	389,417	389,417	364,315	-
Mileage reimbursement	7,903	7,903	7,599	-
Training	10,116	10,116	5,666	-
Health service	484	484	467	-
Total Personnel	<u>1,337,891</u>	<u>1,337,891</u>	<u>1,318,694</u>	<u>-</u>
Library Services:				
Contractual services	131,287	131,287	156,120	3,594
Books	120,000	120,000	109,893	1,785
Periodicals and AV materials	21,000	21,000	19,404	345
Memberships	28,205	28,205	997	-
Computer automation	26,687	26,687	22,841	-
Transfer to other districts	161,941	161,941	160,495	-
Total Library Services	<u>489,120</u>	<u>489,120</u>	<u>469,750</u>	<u>5,724</u>
Facilities and Equipment:				
Rent	4,100	4,100	3,964	-
Maintenance - building and grounds	4,900	4,900	6,151	600
Maintenance - vehicles and equipment	1,200	1,200	1,926	-
Supplies building and grounds	4,605	4,605	5,405	-
Utilities	33,769	33,769	34,826	-
Insurance	14,124	14,660	14,660	-
Telephone	48,776	48,776	12,459	24,623
Total Facilities and Equipment	<u>111,474</u>	<u>112,010</u>	<u>79,391</u>	<u>25,223</u>

<u>Total</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 1,501,674	\$ (23,480)
24,623	24,623
9,935	(20,327)
54,246	(94)
326,559	51,559
2,907	(93)
24,809	5,759
10,364	(636)
19,730	14,130
5,446	5,446
16,721	16,721
9,759	4,374
<u>2,006,773</u>	<u>77,982</u>

940,647	(10,676)
364,315	25,102
7,599	304
5,666	4,450
467	17
<u>1,318,694</u>	<u>19,197</u>

159,714	(28,427)
111,678	8,322
19,749	1,251
997	27,208
22,841	3,846
160,495	1,446
<u>475,474</u>	<u>13,646</u>

3,964	136
6,751	(1,851)
1,926	(726)
5,405	(800)
34,826	(1,057)
14,660	-
37,082	11,694
<u>104,614</u>	<u>7,396</u>

Continued

LAPEER DISTRICT LIBRARY

STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2005

	Original Budget	Final Budget	General Operations	Actual External Restrictions
Other Expenditures:				
Postage	\$ 6,505	\$ 5,969	\$ 4,624	\$ -
Office supplies	13,000	13,000	11,162	-
Board per diem	3,840	3,840	2,250	-
Community promotion	3,342	3,342	2,188	-
Printing and publishing	1,216	1,216	634	-
Miscellaneous	10,600	10,600	52	5,796
Total Other Expenditures	<u>38,503</u>	<u>37,967</u>	<u>20,910</u>	<u>5,796</u>
Total Expenditures	<u>1,976,988</u>	<u>1,976,988</u>	<u>1,888,745</u>	<u>36,743</u>
Excess of revenues under expenditures	(48,197)	(48,197)	68,704	12,581
Fund Balance at January 1, 2005	<u>463,874</u>	<u>463,874</u>	<u>425,220</u>	<u>38,654</u>
Fund Balance at December 31, 2005	<u><u>\$ 415,677</u></u>	<u><u>\$ 415,677</u></u>	<u><u>\$ 493,924</u></u>	<u><u>\$ 51,235</u></u>

<u>Total</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 4,624	\$ 1,345
11,162	1,838
2,250	1,590
2,188	1,154
634	582
5,848	4,752
<u>26,706</u>	<u>11,261</u>
 1,925,488	 51,500
 81,285	 129,482
<u>463,874</u>	<u>-</u>
<u><u>\$ 545,159</u></u>	<u><u>\$ 129,482</u></u>

Concluded

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of Directors
Lapeer District Library

We have audited the financial statements of the Lapeer District Library as of and for the year ended December 31, 2005, and have issued our report thereon, dated March 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financing Reporting

In planning and performing our audit, we considered Lapeer District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lapeer District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Directors of the Lapeer District Library, and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

March 30, 2006

MANAGEMENT LETTER

To the Board of Directors
Lapeer District Library

We have recently completed our audit of the records of Lapeer District Library for the year ended December 31, 2005. In connection with the examination, we believe that certain changes in your accounting procedures would be helpful in improving management's control and/or the operational efficiency of the record keeping system. These suggestions are a result of our evaluation of internal accounting controls and procedures, and our discussions with management. As noted in the **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**, dated March 30, 2006, these weaknesses were not considered to be material weaknesses, but are areas we would like to bring to your attention.

Improved controls over the payroll function.

Currently, the accounting manager summarizes the approved timesheets, submits the information to the payroll processing service, receives the checks from the processing service and reconciles the bank account.

One individual should not be performing all functions relating to one accounting area.

To improve control in the payroll area, we suggest that someone other than the payroll clerk should receive the checks from the payroll processing service and compare the checks to the reports generated by the service. After this independent review of checks and the reports, someone other than the accounting manager can distribute the checks.

These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2005 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information of the management and the Board of Directors of Lapeer District Library and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,



March 30, 2006